

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF BIG RIVERS	)	
ELECTRIC CORPORATION FOR THE	)	Case No.
SIX-MONTH BILLING PERIOD ENDING	)	2015-00124
JANUARY 31, 2015 AND THE PASS THROUGH	)	
MECHANISM OF ITS THREE MEMBER	)	
DISTRIBUTION COOPERATIVES	)	

ORDER

On May 1, 2015, the Commission initiated a six-month review of Big Rivers Electric Corporation's ("Big Rivers") environmental surcharge<sup>1</sup> as billed to its member distribution cooperatives ("Member Cooperatives")<sup>2</sup> for the six-month billing period from August 1, 2014, through January 31, 2015. The billing period reflects the environmental compliance costs incurred by Big Rivers from June 1, 2014, through November 30, 2014.

Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1).

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<sup>1</sup> Big Rivers was authorized to implement an environmental surcharge in Case No. 2007-00460, *The Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff* (Ky. PSC June 25, 2008).

<sup>2</sup> The three Big Rivers Member Cooperatives are Meade County Rural Electric Cooperative Corporation ("Meade County"), Kenergy Corp. ("Kenergy"), and Jackson Purchase Energy Corporation ("Jackson Purchase").

The May 1, 2015 Order also initiated a six-month review of the three Big Rivers Member Cooperatives' pass-through mechanisms.<sup>3</sup> This review for the Member Cooperatives covers their billings from September 1, 2014, through February 28, 2015, for all retail customers except the large commercial and industrial customers with dedicated delivery points as billed from August 1, 2014, through January 31, 2015. For those customers with dedicated delivery points, there is no billing lag.<sup>4</sup> Of the three Member Cooperatives, only Meade County does not have any dedicated delivery point customers.<sup>5</sup>

The Commission included a procedural schedule in the May 1, 2015 Order that provided for discovery, the filing of prepared testimony, and intervenor testimony. Big Rivers filed prepared direct testimony and responded to Commission Staff's request for information. On July 28, 2015, Big Rivers filed a statement indicating that it and each of its three Member Cooperatives believe that a hearing is not necessary in this matter and that the matter may be submitted for adjudication based on the existing record. Based

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<sup>3</sup> The three Member Cooperatives were authorized to implement a pass-through mechanism in separate cases: Case No. 2007-00470, *Application of Meade County Rural Electric Cooperative Corporation for Approval of Retail Tariff Riders, Revised Tariffs and New Tariff, and for Approval of Amendment of Wholesale Agreement* (Ky. PSC Dec. 12, 2008); Case No. 2008-00009, *Application of Kenergy Corp. for Approval of Retail Tariff Riders and Revised Tariffs, Approval of Smelter Agreements, and Approval of Amendment to Wholesale Agreement* (Ky. PSC Dec. 12, 2008); and Case No. 2008-00010, *The Application of Jackson Purchase Energy Corporation for Approval of Retail Tariff Riders, Revised Tariffs, New Tariff, and Amendment of Wholesale Agreement* (Ky. PSC Dec. 12, 2008).

<sup>4</sup> The Commission's Orders in Case Nos. 2007-00470, 2008-00009, and 2008-00010 allow the Member Cooperatives to pass through the environmental surcharge to all their retail customers, except large commercial and industrial customers with dedicated delivery points, on a one-month lag. Therefore, the costs incurred by Big Rivers from June 2014 through November 2014 are billed to the Member Cooperatives in the months of August 2014 through January 2015, with these same costs passed through to the member's retail customers on the bills for September 2014 through February 2015. Those customers with dedicated delivery points are billed without the one-month lag necessary for the retail customers; therefore, their billing period covers the same time frame as Big Rivers'.

<sup>5</sup> Big Rivers' Response to Commission Staff's First Request for Information ("Staff's First Request"), Item 2, Attachment 2 of 2, lines 44-45.

on the absence of intervenors and finding good cause, the Commission finds that this matter should be adjudicated based on the existing record.

### COMPLIANCE PLAN

Big Rivers' environmental compliance plan, approved by the Commission in Case No. 2007-00460<sup>6</sup> ("the 2007 Plan"), consists of programs and associated costs dealing with the control of sulfur dioxide ("SO<sub>2</sub>"), nitrogen oxide ("NO<sub>x</sub>"), and sulfur trioxide ("SO<sub>3</sub>").<sup>7</sup> The 2007 Plan included only operating and maintenance ("O&M") costs.<sup>8</sup> In an October 1, 2012 Order issued by the Commission in Case No. 2012-00063,<sup>9</sup> ("the 2012 Plan") the Commission approved certain additions to the 2007 Plan relating to the Mercury and Air Toxics Standards ("MATS") rule.<sup>10</sup> The additions to the 2012 Plan involved installing activated carbon injection and dry sorbent injection systems and emission-control monitors at Big Rivers' Coleman, Wilson, and Green generating stations; and installing emission-control monitors at Henderson Municipal Power & Light's Station Two generation station.<sup>11</sup> The 2012 Plan includes capital costs, a return on investment and O&M associated with these projects, as well as recovery of

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<sup>6</sup> Case No. 2007-00460, *Application of Big Rivers Electric Corporation for Approval of Environmental Compliance Plan and Environmental Surcharge Tariff* (Ky. PSC June 25, 2008).

<sup>7</sup> Direct Testimony of Nicholas R. Castlen ("Castlen Testimony") at 5.

<sup>8</sup> *Id.* at 6.

<sup>9</sup> Case No. 2012-00063, *Application of Big Rivers Electric Corporation for Approval of Its 2012 Environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, for Certificates of Public Convenience and Necessity, and for Authority to Establish a Regulatory Account* (Ky. PSC Oct. 1, 2012).

<sup>10</sup> Castlen Testimony at 6.

<sup>11</sup> *Id.*

Big Rivers' actual costs incurred in Case No. 2012-00063 (amortized over three years).<sup>12</sup>

Because of the termination of retail power contracts by two aluminum smelters, Big Rivers planned to idle the Coleman and Wilson stations and postpone installation of the MATS compliance equipment. The Coleman station was idled as of May 9, 2014, and Big Rivers states that it will complete the MATS projects at Coleman prior to returning it to service.<sup>13</sup>

Big Rivers has postponed the idling of the Wilson station until December 31, 2015, as it has made favorable sales of power from Wilson for the calendar year 2015.<sup>14</sup> Big Rivers has conducted testing to determine if operational changes at Wilson would be sufficient to achieve MATS compliance without installing additional equipment. Big Rivers has determined that it can comply with all emission standards of the MATS rule by utilizing dry sorbent injection only.<sup>15</sup> Big Rivers has received extensions to April 16, 2016, for MATS compliance from the Kentucky Division of Air Quality for the Green, Reid and Wilson stations.<sup>16</sup>

Big Rivers' environmental surcharge mechanism allows Big Rivers to recover costs related to the 2007 Plan and the 2012 Plan, less proceeds from by-product and

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<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 7.

<sup>14</sup> Letter from Robert W. Berry, Big Rivers, Chief Operating Officer, to Jeff Derouen, Public Service Commission, Executive Director, June 12, 2014.

<sup>15</sup> Case No. 2014-00323, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Big Rivers Electric Corporation for the Six-Month Billing Period Ending July 31, 2014 and the Pass Through Mechanism of Its Three Member Distribution Cooperatives*, Big Rivers' Response to Commission Staff's Initial Request for Information, Item 6.a.

<sup>16</sup> *Id.*, Item 6.b.

emission allowance sales, plus or minus an ongoing cumulative over- or under-recovery adjustment.<sup>17</sup>

### SURCHARGE ADJUSTMENT

The May 1, 2015 Order initiating this case indicated that, since over- or under-recoveries of allowable environmental compliance costs may have occurred during the period under review, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. Big Rivers is not requesting any additional over- or under-recovery of its environmental costs. Big Rivers states that the normal over/under recovery carry-forward element of its environmental surcharge mechanism is operating as intended.<sup>18</sup> The Commission has reviewed Big Rivers' filing and finds reasonable its calculation for the review period covered in this proceeding and further finds no need for any adjustments of Big Rivers' recovery of its environmental costs as a result of its review.

### RATE OF RETURN

The Commission approved Big Rivers' 2012 Plan and Environmental Surcharge ("ES") Tariff by its order in Case No. 2012-00063. The 2012 Plan provides that the environmental costs recoverable by Big Rivers include not only its O&M costs, but also capital costs including a return on investment. Big Rivers calculated a return on investment for each expense month of the review period.

Big Rivers' ES Tariff provides that the rate of return on the environmental rate base is the weighted average debt cost for environmental compliance plan projects

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<sup>17</sup> Castlen Testimony at 7.

<sup>18</sup> *Id.* at 8.

approved by the Commission multiplied by a Times Interest Earned Ratio ("TIER") factor. In accordance with its ES Tariff, Big Rivers determined the weighted average cost of debt and applied a TIER of 1.24 to the weighted average cost of debt to produce the monthly rates of return for the review period. The TIER factor of 1.24 was defined in the special contracts in place for the two aluminum smelters at the time the 2012 Plan was filed for Commission approval. Since approval of the 2012 Plan, both smelters have left Big Rivers' system.<sup>19</sup>

Big Rivers' ES Tariff provides that Big Rivers' monthly environmental costs should be based on actual costs and revenues for the current expense month. Due to monthly fluctuations in interest costs, Big Rivers determines the average cost of debt for the current expense month rather than using a historical average or forecasted amount. Big Rivers states that determining the average cost of debt for the current expense month ensures that the calculation accurately reflects the environmental costs associated with that expense month. The Commission has reviewed and finds reasonable Big Rivers' determination of the rates of return for each month of the review period.

#### RETAIL PASS-THROUGH MECHANISM

None of the Member Cooperatives are requesting any additional over- or under-recovery under their respective surcharge pass-through mechanisms. The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of its respective over- or under-recoveries for the review periods covered in this proceeding

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<sup>19</sup> The smelters which Big Rivers served under special contracts were Alcan Primary Products Corporation and Century Aluminum of Kentucky General Partnership. Century Aluminum has since acquired the Alcan Sebree smelter.

and further finds no need for any adjustments of the Member Cooperatives' recovery of their respective pass-through amounts as a result of this review.

IT IS THEREFORE ORDERED that:

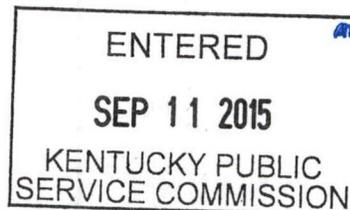
1. The amounts billed by Big Rivers through its environmental surcharge for the period August 1, 2014, through January 31, 2015, are approved.

2. The amounts billed by Jackson Purchase and Kenergy through their respective environmental surcharge pass-through mechanisms for the period August 1, 2014, through January 31, 2015, for all customers with dedicated delivery points are approved.

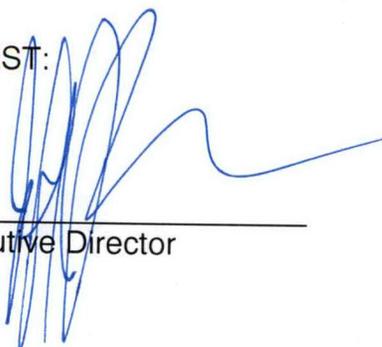
3. The amounts billed by the three Member Cooperatives through their respective environmental surcharge pass-through mechanisms for the period September 1, 2014, through February 28, 2015, for all other non-dedicated delivery point customers are approved.

4. The rates of return determined by Big Rivers for each month of the review period are approved.

By the Commission



ATTEST:

  
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